FISCAL POLICIES MANUAL

NOTES AND LOANS RECEIVABLE: COLLECTIONS AND WRITE-OFFS

PREFACE

Loans Receivables are collateralized assets of the state. They are generally long term in nature and represent money that the state has distributed to implement, improve, or act as a funding source for various state programs. An agreement exists to pay back the funds within specified period of time, to establish a payment schedule, and to specify an interest rate.

By comparison, Notes may be collateralized assets and they are generally shorter term in nature than Loans Receivables.

Recording notes, loans, and interest receivables in the accounting system is required for all budgeted and unbudgeted revenues susceptible to accrual payments. Agencies record the receivables in the state's central accounting system, in the agency's accounting system, or both.

To prevent financial loss to the state, loans, notes, and interest receivables must be maintained and monitored carefully. Written policies and procedures for recording, collecting, and writing off bad debts must exist and be followed diligently.

DEFINITIONS

Uncollectible - The amount due cannot be collected because the debtor cannot be located or does not have the ability to pay the amount owed or the cost of collection exceeds the amount due.

Receivables - Amounts due from transactions with entities outside the state entity.

Write-off - A mechanism to remove the uncollectible portion of a receivable from the accounting records. A write-off occurs when the amount due cannot be collected and management determines that it is no longer a valid receivable.

POLICY

Each state agency creating notes and loans receivables for the agency and the state by disbursing loan funds shall establish written policies and procedures for loan creation, payment, collection, write-offs, and write-off review.

The written policies must be specific and clear. The written procedures must be sufficient to serve as a day-to-day guide for the agency's staff and be monitored for compliance with policy. They should include at least the following:

Approval of a Loan

1. General standards used to determine if an individual qualifies for a note or loan and the notations identifying which applications should be accepted or rejected. Standards should be flexible enough to permit some degree of judgment by agency management.
2. A loan agreement including the amount of the loan, the payment plan and the specified interest rate; the statutory authority to provide such loans; the general loan terms, including any collateral position of assets purchased or other assets of value, and required collection period.
3. A list of personnel, by position title at each organizational level, responsible for authorizing loans, including the maximum amount of loan that a person or committee may authorize.
4. Procedures for recording and signing collateral positions as required by the Uniform Commercial Code (UCC) rules.

Maintenance

1. Identification of personnel, by position title at each organizational level, responsible for recording the loan in the accounting records, for reviewing balances, and for reconciling the accounts.
2. Rules for maintaining the account/loan, including: 1) method of calculating interest, 2) timing and frequency of statement mailings, 3) recording of advance payments, and 4) frequency of payments.
3. Rules for determining when a loan is considered uncollectible.
4. Identification of personnel to notify when accounts have become overdue.

Collection

1. Method of collection for overdue loan accounts, with specific justification for any deviation from established general collection procedures. If not obvious, the agency must include an explanation for the deviation.
2. Use of collection agencies.

FISCAL IMPACT

The control of loans and interest receivables is a key management process that consists of determining the amounts due from others based upon agreed payment schedules, recording the amounts on a timely basis, billing the loan recipients on a timely basis, and promptly collecting the loans and receivables.

Failure to follow this process to control loans and interest receivables can cause financial problems for a state agency. The longer a receivable is allowed to remain unpaid, the harder it becomes to collect.

ADMINISTRATIVE PROCEDURES

All state agencies have full responsibility for collecting their own loans and interest receivables. All agencies should establish written procedures for their collection activities. The written procedures should include the time periods for follow-up billings for delinquent accounts, dollar thresholds used for determining the use of collection agencies, and instructions for claiming all collateral positions and reporting non-payment.

In the event a default occurs, there should be written instructions for establishing an Uncollectible Allowance account and for writing off the bad debt.

For inclusion in the Comprehensive Annual Financial Report (CAFR), the loan balances and uncollectible amounts must be reported on the Loans and Notes Receivable Closing Package provided annually to the State Controller's Office, Division of Statewide Accounting.